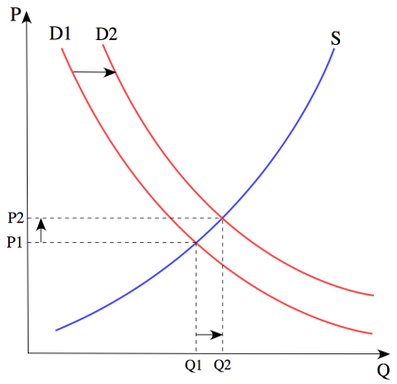


7 FACTORS can produce a Change in Demand

P = <u>Population change</u> effect (change in # of consumers for a given market)

I = <u>Income</u> effect (change in consumer income)

R = <u>Related goods</u> effects (substitutes and complements)

A = <u>Advertising</u> effect

T = <u>Tastes</u> and preferences of consumers change

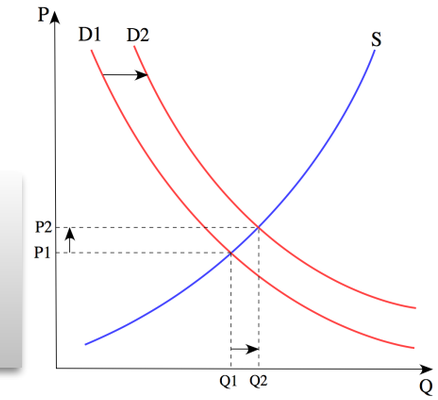
E = <u>Expectations</u> about future prices or products

S = <u>Seasonality</u>

NAME _____ PERIOD _____

Non-price factors that can cause a Change in Demand:

P I R A T E S



P	I	R	A	T	E	S
Population Change Effect	**Income effect**	**Related goods (substitutes and complements)**	**Advertising effect**	**Tastes (changes in consumer preferences)**	**Expectations about future prices or future products**	**Seasonality**
If more consumers enter the market for a product, it can shift demand at all prices to the right; the opposite is true if fewer consumers are in the market for a product.	As incomes rise, consumers can afford to buy more products at each and every price (causing the entire demand curve to shift to the right). As income levels fall, the opposite occurs.	SUBSTITUTE EFFECT: The demand for a product goes 5 if the price of its substitute goes 5; the demand for a product goes 6 if the price of its substitute goes 6.	Advertising has the potential to generate additional demand for a productive, if it is effective, or drive more traffic to a store (pushing the entire demand curve to the right).	As new products emerge and as tastes and styles change, demand for a product may increase or decrease *at every single price point*, causing the entire demand curve to shift left or right.	If people expect food prices to rise in the future (perhaps due to shortages caused by drought), they might begin stocking up on food with a long shelf life right now, causing demand to rise at each and every price.	Some products or services are highly seasonal (installing Christmas lights, fireworks stands, etc.) and see their entire demand curve shift to the left in some seasons and to the right in others.
	As incomes rise, the entire demand curve for NORMAL GOODS or LUXURY GOODS can shift to the right (increased demand). As incomes rise, however, the entire demand curve for INFERIOR GOODS shifts to the left.	COMPLEMENTS: When two products are complements, the use of one increases the use of the other. If the price of one good goes ↑, it causes demand for its complement to go ↓, and vice versa.			Similarly, consumers may be reluctant to buy a product if they know a newer version is about to come out (example: iPhones), causing the entire demand curve to shift left or right.	

RELATED GOODS

SUBSTITUTES

Butter, margarine, Earth Balance spread

COMPLEMENTS

Hamburger, french fries

NORMAL GOODS: A good for which the quantity demanded rises as consumer incomes rise (if price remains the same).

INFERIOR GOODS: A good that decreases in demand as consumer incomes rise (because people have the money to purchase normal or luxury goods) instead.